

SCHLESWIG COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14
Governmental Fund Financial Statements:		
Balance Sheet	C	15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	16
Statement of Revenues, Expenditures and Changes in Fund Balances	E	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	18
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	19
Statement of Revenues, Expenses and Changes in Net Assets	H	20
Statement of Cash Flows	I	21
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Assets and Liabilities	J	22
Notes to Financial Statements		23-31
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		32
Notes to Required Supplementary Information - Budgetary Reporting		33
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	35
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	36
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	37
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		38-39
Schedule of Findings		40-43

Schleswig Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Todd Schultz	President	2007
Rhonda Nemitz	Board Member	2005
Kelli Rupert	Board Member (Resigned)	2006
Alan Weiss	Board Member (Appointed)	2005
Michele Kinnersley	Board Member	2006
Patti Miller	Board Member	2005

Board of Education
(After September 2005 Election)

Todd Schultz	President	2007
Rhonda Nemitz	Board Member	2008
Alan Weiss	Board Member	2006
Michele Kinnersley	Board Member	2006
Andrea Gurney	Board Member	2008

School Officials

Jack Johnson	Superintendent	2006
Sherri Jones	District Secretary	2006
Vanessa Zimmer	District Treasurer	2006
Mundt, Franck & Schumacher	Attorney	2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Schleswig Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Schleswig Community School District, Schleswig, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Schleswig Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

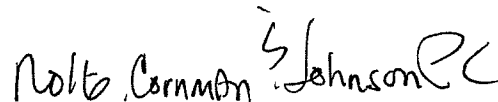
In accordance with Government Auditing Standards, we have also issued our report dated August 22, 2006 on our consideration of Schleswig Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Schleswig Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

August 22, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Schleswig Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,183,395 in fiscal 2005 to \$2,265,926 in fiscal 2006, while General Fund expenditures increased from \$2,381,430 in fiscal 2005 to \$2,385,691 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$554,158 in fiscal 2005 to a balance of \$423,892 in fiscal 2006, a 23.5% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local and state source revenues in fiscal 2006. The increase in expenditures was due primarily to an increase in the support services functional area.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Schleswig Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Schleswig Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Schleswig Community School District acts solely as an agent or custodial for the benefit of those outside of District government.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Schleswig Community School District Annual Financial Report

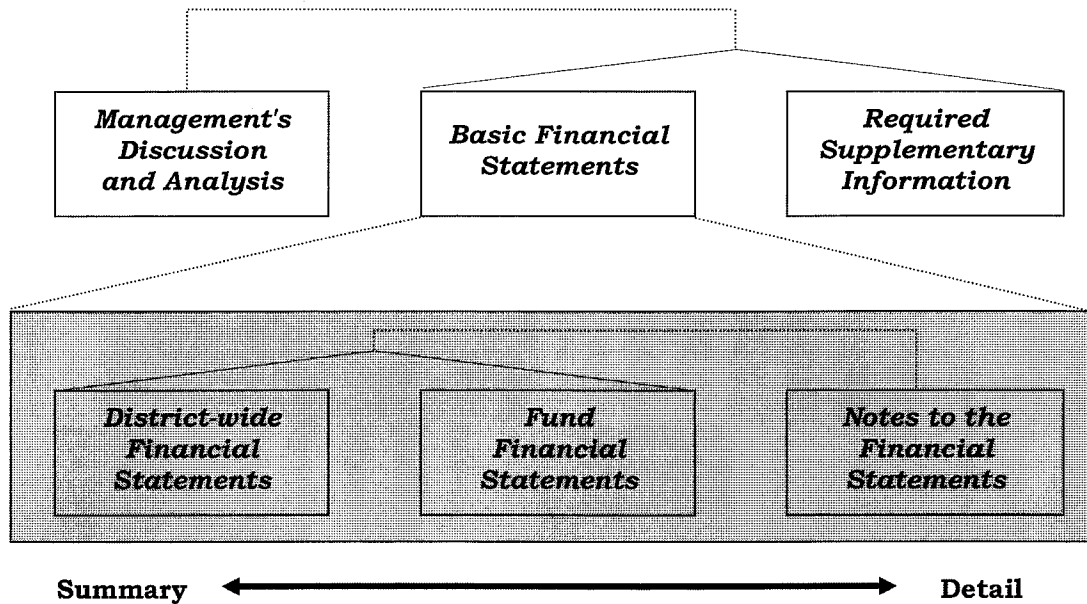


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

- 3) *Fiduciary funds*: The District is a trustee, or fiduciary, for assets that belong to others. These funds include the Agency Fund.

Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 1,774,910	1,855,376	6,189	4,157	1,781,099	1,859,533	-4.22%
Capital assets	422,356	417,490	2,991	18,198	425,347	435,688	-2.37%
Total assets	2,197,266	2,272,866	9,180	22,355	2,206,446	2,295,221	-3.87%
Other liabilities	968,625	907,759	0	458	968,625	908,217	6.65%
Total liabilities	968,625	907,759	0	458	968,625	908,217	6.65%
Net assets:							
Invested in capital assets, net of related debt	422,356	417,490	29,910	18,198	452,266	435,688	3.81%
Restricted	373,933	331,241	0	0	373,933	331,241	12.89%
Unrestricted	432,352	616,376	6,189	3,699	438,541	620,075	-29.28%
Total net assets	\$ 1,228,641	1,365,107	36,099	21,897	1,264,740	1,387,004	-8.81%

The District's combined net assets decreased by 8.81%, or \$122,264, under the prior year. The largest portion of the District's net assets is the unrestricted net assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$42,692, or 12.89% over the prior year. The increase was primarily a result of the District receiving Local Option Sales and Services Tax monies.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other

legal requirements – decreased \$181,534, or 29.28%. This decrease in unrestricted net assets was a result of the District's decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006.

	Figure A-4 Changes of Net Assets						
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 188,619	251,660	33,442	43,140	222,061	294,800	-24.67%
Operating grants and contributions and restricted interest	296,847	279,815	53,780	42,226	350,627	322,041	8.88%
General revenues:							
Property tax	763,608	855,534	0	0	763,608	855,534	-10.74%
Local option sales and services tax	143,616	107,233	0	0	143,616	107,233	33.93%
Unrestricted state grants	1,035,692	951,170	0	0	1,035,692	951,170	8.89%
Other	25,756	19,895	300	775	26,056	20,670	26.06%
Total revenues	2,454,138	2,465,307	87,522	86,141	2,541,660	2,551,448	-0.38%
Program expenses:							
Governmental activities:							
Instructional	1,623,820	1,739,150	0	0	1,623,820	1,739,150	-6.63%
Support services	820,928	644,736	0	0	820,928	644,736	27.33%
Non-instructional programs	0	0	98,980	90,636	98,980	90,636	9.21%
Other expenses	135,355	153,156	0	0	135,355	153,156	-11.62%
Total expenses	2,580,103	2,537,042	98,980	90,636	2,679,083	2,627,678	1.96%
Deficiency of revenues under expenses	(125,965)	(71,735)	(11,458)	(4,495)	(137,423)	(76,230)	44.53%
Other financing sources (uses)							
Capital contributions	0	0	15,159	12,700	15,159	12,700	19.36%
Transfer in	0	0	10,501	0	10,501	0	100.00%
Transfer out	(10,501)	0	0	0	(10,501)	0	100.00%
Total other financing sources (uses)	(10,501)	0	25,660	12,700	15,159	12,700	19.36%
Changes in net assets	(136,466)	(71,735)	14,202	8,205	(122,264)	(63,530)	92.45%
Beginning net assets	1,365,107	1,436,842	21,897	13,692	1,387,004	1,450,534	-4.38%
Ending net assets	\$ 1,228,641	1,365,107	36,099	21,897	1,264,740	1,387,004	-8.81%

Property tax and unrestricted state grants account for 71% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 91% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was due to the increase in local option sales tax and state grant monies. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature, and the mid-year reduction of funding on the part of the state.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs.

Governmental Activities

Revenues for governmental activities were \$2,454,138 and expenses were \$2,580,103. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,623,820	1,228,143
Support services	820,928	816,577
Other expenses	135,355	49,917
Totals	<u>\$ 2,580,103</u>	<u>2,094,637</u>

- The cost financed by users of the District's programs was \$188,619.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$296,847.
- The net cost of governmental activities was financed with \$763,608 in property tax, \$143,616 in local option sales and services tax, \$1,035,692 in unrestricted state grants and \$25,756 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$87,522 and expenses were \$98,980. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Schleswig Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$768,402, below last year's ending fund balances of \$858,940. However, the primary reason for the decrease in combined fund balances in fiscal 2006 is due to the decrease in the General Fund balance.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors:
 - The increase in revenues was not enough to offset the increase in expenditures over the prior fiscal year causing the General Fund balance to decrease.
- The Local Option Sales and Services Tax (LOSST) Fund balance increased from \$91,571 in fiscal 2005 to \$156,483 in fiscal 2006. This increase was partially due to increased revenues as compared to the previous year.

Proprietary Fund Highlights

The Proprietary Funds net assets increased from \$21,897 at June 30, 2005 to \$36,099 at June 30, 2006, representing an increase of 65%. The reason for the increase in net assets was due to the School Nutrition Fund receiving \$15,159 in contributed capital from the Physical Plant and Equipment Levy Fund(PPEL).

BUDGETARY HIGHLIGHTS

The District's revenues were \$86,575 less than budgeted revenues, a variance of 3.23%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total disbursements were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget disbursements at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual disbursements for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$452,266, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 19% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$74,615.

The original cost of the District's capital assets was \$1,496,479. Governmental funds account for \$1,425,528 with the remainder of \$70,951 in the Proprietary funds.

The largest change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$54,445 at June 30, 2006, compared to \$0 reported at June 30, 2005. This increase was due mainly in part to the paving project at the school being completed during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 117,443	117,443	0	0	117,443	117,443	0.00%
Land improvements	54,445	0	0	0	54,445	0	100.00%
Buildings	146,831	164,401	0	0	146,831	164,401	-11.97%
Machinery and equipment	103,637	135,646	29,910	18,198	133,547	153,844	-15.20%
Total	\$ 422,356	417,490	29,910	18,198	452,266	435,688	3.67%

Long-Term Debt

At June 30, 2006, the District did not have any long-term debt.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Continued budget concerns at the state level will affect future projections. Due to declining enrollment, the District has received very little new money for the past several years.
- The apparent increased costs of gasoline/diesel fuel will also impact the District's efforts to control expenditures.
- The Denison and Schleswig Community School Districts have an agreement that will expire June 30, 2011, in which Schleswig Community School District will pay 81% of the regular program district cost, plus 100% of the SILO dollars for the students that will be attending Denison under the sharing agreement.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sherri Jones, Business Manager, Schleswig Community School District, 714 Date Street, Schleswig, Iowa, 51461.

BASIC FINANCIAL STATEMENTS

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
Other	\$ 839,303	1,221	840,524
Receivables:			
Property tax:			
Delinquent	12,016	0	12,016
Succeeding year	799,563	0	799,563
Income surtax	37,883	0	37,883
Accounts	0	671	671
Due from other governments	86,145	0	86,145
Inventories	0	4,297	4,297
Capital assets, net of accumulated depreciation(Note 4)	422,356	29,910	452,266
TOTAL ASSETS	2,197,266	36,099	2,233,365
LIABILITIES			
Accounts payable	18,866	0	18,866
Salaries and benefits payable	150,196	0	150,196
Deferred revenue:			
Succeeding year property tax	799,563	0	799,563
TOTAL LIABILITIES	968,625	0	968,625
NET ASSETS			
Investment in capital assets, net of related debt	422,356	29,910	452,266
Restricted for:			
Talented and gifted	29,423	0	29,423
Capital projects	156,483	0	156,483
Management levy	77,479	0	77,479
Physical plant and equipment levy	97,865	0	97,865
Other special revenue purposes	12,683	0	12,683
Unrestricted	432,352	6,189	438,541
TOTAL NET ASSETS	\$ 1,228,641	36,099	1,264,740

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					
Governmental activities:					
Instruction:					
Regular instruction	\$ 1,233,320	129,767	197,533	(906,020)	0
Special instruction	354,991	58,852	9,525	(286,614)	0
Other instruction	35,509	0	0	(35,509)	0
	<u>1,623,820</u>	<u>188,619</u>	<u>207,058</u>	<u>(1,228,143)</u>	<u>0</u>
Support services:					
Student services	47,901	0	0	(47,901)	0
Instructional staff services	46,261	0	0	(46,261)	0
Administration services	385,258	0	0	(385,258)	0
Operation and maintenance of plant services	210,337	0	0	(210,337)	0
Transportation services	131,171	0	4,351	(126,820)	0
	<u>820,928</u>	<u>0</u>	<u>4,351</u>	<u>(816,577)</u>	<u>0</u>
Other expenditures:					
Facilities and acquisitions	29,481	0	0	(29,481)	0
AEA flowthrough	85,438	0	85,438	0	0
Depreciation(unallocated)*	20,436	0	0	(20,436)	0
	<u>135,355</u>	<u>0</u>	<u>85,438</u>	<u>(49,917)</u>	<u>0</u>
Total governmental activities	2,580,103	188,619	296,847	(2,094,637)	0
Business-Type activities:					
Non-instructional programs:					
Nutrition services	98,980	33,442	53,780	0	(11,758)
Total business-type activities	<u>98,980</u>	<u>33,442</u>	<u>53,780</u>	<u>0</u>	<u>(11,758)</u>
Total	<u>\$ 2,679,083</u>	<u>222,061</u>	<u>350,627</u>	<u>(2,094,637)</u>	<u>(11,758)</u>
General Revenues:					
Local tax for:					
General purposes				\$ 740,685	0
Capital outlay				22,923	0
Local option sales and services tax				143,616	0
Unrestricted state grants				1,035,692	0
Unrestricted investment earnings				25,756	300
Total general revenues				<u>1,968,672</u>	<u>300</u>
Changes in net assets before capital contributions				(125,965)	(11,458)
Other financing sources (uses)					
Capital contributions				0	15,159
Transfer in				0	10,501
Transfer out				(10,501)	0
Total other financing sources (uses)				<u>(10,501)</u>	<u>25,660</u>
Changes in net assets				(136,466)	14,202
Net assets beginning of year				1,365,107	21,897
Net assets end of year				<u>\$ 1,228,641</u>	<u>36,099</u>

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments					
Other	\$ 506,084	97,504	146,197	89,518	839,303
Receivables:					
Property tax:					
Delinquent	11,011	361	0	644	12,016
Succeeding year	735,907	23,656	0	40,000	799,563
Income surtax	37,883	0	0	0	37,883
Due from other governments	75,859	0	10,286	0	86,145
TOTAL ASSETS	\$ 1,366,744	121,521	156,483	130,162	1,774,910
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 18,866	0	0	0	18,866
Salaries and benefits payable	150,196	0	0	0	150,196
Deferred revenue:					
Succeeding year property tax	735,907	23,656	0	40,000	799,563
Income surtax	37,883	0	0	0	37,883
Total liabilities	942,852	23,656	0	40,000	1,006,508
Fund balances:					
Reserved for:					
Talented and gifted	29,423	0	0	0	29,423
Unreserved:					
General	94,469	0	0	0	94,469
Management	0	0	0	77,479	77,479
Capital Projects	0	0	156,483	0	156,483
Physical plant and equipment levy	0	97,865	0	0	97,865
Other special revenue purposes	0	0	0	12,683	12,683
Designated for cashflow	300,000	0	0	0	300,000
	423,892	97,865	156,483	90,162	768,402
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,366,744	121,521	156,483	130,162	1,774,910

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 768,402
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	422,356
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	<u>37,883</u>
Net assets of governmental activites (page 13)	<u><u>\$ 1,228,641</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 751,440	22,923	143,616	40,039	958,018
Tuition	147,746	0	0	0	147,746
Other	34,201	2,473	0	29,955	66,629
State sources	1,237,317	0	0	0	1,237,317
Federal sources	95,222	0	0	0	95,222
Total revenues	2,265,926	25,396	143,616	69,994	2,504,932
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	1,216,850	0	0	14,867	1,231,717
Special instruction	354,991	0	0	0	354,991
Other instruction	0	0	0	35,509	35,509
	1,571,841	0	0	50,376	1,622,217
Support services:					
Student services	47,901	0	0	0	47,901
Instructional staff services	36,098	7,962	2,201	0	46,261
Administration services	385,258	0	0	0	385,258
Operation and maintenance of plant services	165,488	21,744	0	17,896	205,128
Transportation services	93,667	0	2,535	9,772	105,974
	728,412	29,706	4,736	27,668	790,522
Other expenditures:					
Facilities acquisitions	0	12,824	73,968	0	86,792
AEA flowthrough	85,438	0	0	0	85,438
	85,438	12,824	73,968	0	172,230
Total expenditures	2,385,691	42,530	78,704	78,044	2,584,969
Excess(deficiency) of revenues over expenditures	(119,765)	(17,134)	64,912	(8,050)	(80,037)
Other financing uses:					
Transfers out	(10,501)	0	0	0	(10,501)
Net change in fund balances	(130,266)	(17,134)	64,912	(8,050)	(90,538)
Fund balance beginning of year	554,158	114,999	91,571	98,212	858,940
Fund balance end of year	\$ 423,892	97,865	156,483	90,162	768,402

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ (90,538)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 76,034	
Depreciation expense	<u>(71,168)</u>	4,866

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.	<u>(50,794)</u>
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Changes in net assets of governmental activities (page 14)	<u><u>\$ (136,466)</u></u>
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SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 1,221
Accounts receivable	671
Inventories	4,297
Capital assets, net of accumulated depreciation(Note 3)	29,910
TOTAL ASSETS	<u>36,099</u>
 TOTAL LIABILITIES	 <u>0</u>
 NET ASSETS	
Investment in capital assets, net of related debt	29,910
Unrestricted	6,189
TOTAL NET ASSETS	<u>\$ 36,099</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 43,943
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	41,051
Benefits	5,571
Services	1,195
Supplies	47,716
Depreciation	3,447
TOTAL OPERATING EXPENSES	<u>98,980</u>
OPERATING LOSS	<u>(55,037)</u>
NON-OPERATING REVENUES:	
State sources	1,291
Federal sources	41,988
Interest on investments	300
TOTAL NON-OPERATING REVENUES	<u>43,579</u>
Net loss before other financing sources	<u>(11,458)</u>
OTHER FINANCING SOURCES	
Transfer in	10,501
Capital contributions	15,159
TOTAL OTHER FINANCING SOURCES	<u>25,660</u>
Change in net assets	14,202
Net assets beginning of year	<u>21,897</u>
Net assets end of year	<u>\$ 36,099</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 31,326
Cash received from miscellaneous	11,488
Cash payments to employees for services	(46,622)
Cash payments to suppliers for goods or services	(44,183)
Net cash used in operating activities	<u>(47,991)</u>
Cash flows from non-capital financing activities:	
State grants received	1,291
Federal grants received	37,081
Net cash provided by non-capital financing activities	<u>38,372</u>
Cash flows from investing and other activities:	
Transfer from General Fund	10,501
Interest on investments	300
Net cash provided by investing and other activities	<u>10,801</u>
Net increase in cash and cash equivalents	1,182
Cash and cash equivalents at beginning of year	<u>39</u>
Cash and cash equivalents at end of year	<u>\$ 1,221</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (55,037)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	4,907
Depreciation	3,447
Increase in inventories	(179)
Increase in accounts receivable	(671)
Decrease in deferred revenue	(458)
Net cash used in operating activities	<u>\$ (47,991)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 1,221</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$4,907.

During the year ended June 30, 2006, the District received Capital Contributions from the Physical Plant and Equipment Levy (PEEL) of \$15,159.

SEE NOTES TO FINANCIAL STATEMENTS.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2006

	<u>Agency</u>
Assets	
Cash and pooled investments	<u>\$ 2,770</u>
Total assets	<u><u>\$ 2,770</u></u>
Liabilities	
Due to other funds	<u>\$ 2,770</u>
Total liabilities	<u><u>\$ 2,770</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

SCHLESWIG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Schleswig Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Schleswig, Iowa, and the predominate agricultural territory in Crawford and Ida Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Schleswig Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Schleswig Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Crawford and Ida Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant & Equipment Levy(PPEL) Fund is used to account for machinery and equipment expenditures as well as the improvements to capital facilities.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds is the School Nutrition Fund. The Nutrition fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB

pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,400
Buildings	1,400
Land improvements	1,400
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,400

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been

recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Designated For Special Purposes by the Board - In the governmental fund financial statements, the District's board designated \$300,000 of the General Fund's unreserved balance for special purposes by the Board.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the non-instructional programs functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured and held by the District in the District's name. Certificates of deposit are stated at fair value.

At June 30, 2006, the District had investments in certificates of Deposit maturing over one year as follows:

	Fair Value
Certificates of deposit	\$ 360,083

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006, is as follows:

Transfer to	Transfer from	Amount
Nutrition	General	\$ 10,501

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 117,443	0	0	117,443
Total capital assets not being depreciated	117,443	0	0	117,443
Capital assets being depreciated:				
Land improvements	0	57,311	0	57,311
Buildings and improvements	693,272	0	0	693,272
Machinery and equipment	538,779	18,723	0	557,502
Total capital assets being depreciated	1,232,051	76,034	0	1,308,085
Less accumulated depreciation for:				
Land improvements	0	2,866	0	2,866
Buildings and improvements	528,871	17,570	0	546,441
Machinery and equipment	403,133	50,732	0	453,865
Total accumulated depreciation	932,004	71,168	0	1,003,172
Total capital assets being depreciated, net	300,047	4,866	0	304,913
Governmental activities capital assets, net	\$ 417,490	4,866	0	422,356
Business-type activities:				
Machinery and equipment	\$ 42,955	15,159	(12,837)	70,951
Less accumulated depreciation	24,757	3,447	(12,837)	41,041
Business-type activities capital assets, net	\$ 18,198	11,712	0	29,910

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular \$ 20,326

Support services:

Operation and maintenance of plant 5,209

Transportation 25,197

50,732

Unallocated depreciation 20,436

Total governmental activities depreciation expense \$ 71,168

Business-type activities:

Food service operations \$ 3,447

Total business-type activities depreciation expense \$ 3,447

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$67,922, \$69,029, and \$58,056 respectively, equal to the required contributions for each year.

(6) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: long term disability and health.

District contributions to ISEBA for the year ended June 30, 2006 were \$3,378.

Schleswig Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$85,438 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, disbursements in the non-instructional functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

SCHLESWIG COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual
	Fund Types	Fund Type				Variance -
	Actual	Actual	Actual	Original	Final	Positive (Negative)
Receipts:						
Local sources	\$ 1,172,393	44,243	1,216,636	1,295,932	1,295,932	(79,296)
State sources	1,237,317	1,291	1,238,608	1,265,097	1,265,097	(26,489)
Federal sources	95,222	41,988	137,210	118,000	118,000	19,210
Total revenues	2,504,932	87,522	2,592,454	2,679,029	2,679,029	(86,575)
Disbursements:						
Instruction	1,622,217	0	1,622,217	1,812,820	1,812,820	190,603
Support services	790,522	0	790,522	1,704,606	1,704,606	914,084
Non-instructional programs	0	98,980	98,980	95,156	95,156	(3,824)
Other expenditures	172,230	0	172,230	325,237	325,237	153,007
Total expenditures	2,584,969	98,980	2,683,949	3,937,819	3,937,819	1,253,870
Deficiency of receipts under disbursements	(80,037)	(11,458)	(91,495)	(1,258,790)	(1,258,790)	(1,167,295)
Other financing sources, net	(10,501)	25,660	15,159	0	0	(15,159)
Deficiency of receipts under disbursements	(90,538)	14,202	(76,336)	(1,258,790)	(1,258,790)	(1,182,454)
Balance beginning of year	858,940	21,897	880,837	1,258,790	1,258,790	(377,953)
Balance end of year	\$ 768,402	36,099	804,501	0	0	804,501

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Total Special Revenue	
ASSETS				
Cash and pooled investments	\$ 76,835	12,683	89,518	89,518
Receivables:				
Property tax:				
Current year delinquent	644	0	644	644
Succeeding year	40,000	0	40,000	40,000
TOTAL ASSETS	\$ 117,479	12,683	130,162	130,162
LIABILITIES AND FUND EQUITY				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ 40,000	0	40,000	40,000
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	77,479	12,683	90,162	90,162
Total fund balances	77,479	12,683	90,162	90,162
TOTAL LIABILITIES AND FUND EQUITY	\$ 117,479	12,683	130,162	130,162

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Total Special Revenue	
REVENUES:				
Local sources:				
Local tax	\$ 40,039	0	40,039	40,039
Other	1,940	28,015	29,955	29,955
TOTAL REVENUES	41,979	28,015	69,994	69,994
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	14,867	0	14,867	14,867
Other instruction	0	35,509	35,509	35,509
Support services:				
Operation and maintenance of plant services	17,896	0	17,896	17,896
Student transportation	6,566	3,206	9,772	9,772
TOTAL EXPENDITURES	39,329	38,715	78,044	78,044
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,650	(10,700)	(8,050)	(8,050)
FUND BALANCE BEGINNING OF YEAR	74,829	23,383	98,212	98,212
FUND BALANCE END OF YEAR	\$ 77,479	12,683	90,162	90,162

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Activity Fund Balance	\$ 23	0	0	23
Vocal Music	(7,083)	0	2,143	(9,226)
Instrumental Music	640	42	338	344
M.S. Athletics	(18,094)	0	8,066	(26,160)
M.S. Student Council	601	138	684	55
School Annual	2,154	0	120	2,034
Music Boosters	2,513	0	1,725	788
Athletic Boosters	19,802	4,432	1,666	22,568
Student Projects	16,699	22,838	23,973	15,564
Old High School Clubs	4,162	0	0	4,162
Activity Fund Savings	1,966	565	0	2,531
Total	\$ 23,383	28,015	38,715	12,683

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	958,018	929,644	1,055,373	970,659
Tuition		147,746	198,439	139,342	117,645
Other		66,629	73,116	73,970	66,762
State sources		1,237,317	1,131,112	1,014,565	1,069,787
Federal sources		95,222	99,873	97,528	97,119
Total		\$ 2,504,932	2,432,184	2,380,778	2,321,972
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	1,231,717	1,274,540	1,178,714	1,085,534
Special instruction		354,991	347,318	280,686	337,815
Other instruction		35,509	119,888	52,749	52,620
Support services:					
Student services		47,901	55,241	48,217	43,271
Instructional staff services		46,261	60,903	52,280	61,187
Administration services		385,258	300,450	322,592	221,308
Operation and maintenance of plant services		205,128	166,354	171,970	176,467
Transportation services		105,974	95,190	92,954	142,527
Central services		0	0	20,757	20,507
Other expenditures:					
Facilities acquisitions		86,792	87,756	88,997	0
AEA flow-through		85,438	84,987	85,214	91,422
Total		\$ 2,584,969	2,592,627	2,395,130	2,232,658

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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(a professional corporation)
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Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Schleswig Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Schleswig Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 22, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Schleswig Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Schleswig Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not

express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Schleswig Community School District and other parties to whom Schleswig Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Schleswig Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

August 22, 2006

SCHLESWIG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-06 Student Activity Fund - We noted during our audit that the Student Activity Fund included an interest account titled Activity Fund Savings. The Activity Fund also has an account titled Activity Fund Balance.

Recommendation - Interest in the Activity Fund Savings account should be allocated to the various accounts within the Student Activity Fund. The District should identify to which Student Activity Accounts the money in the Activity Fund Balance account belongs and make the necessary transfers.

Response - We will continue to review our procedures and implement additional controls where deemed possible.

Conclusion - Response accepted.

- I-C-06 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation of the General Fund which have been outstanding for over a year.

Recommendation - The District should review these checks to determine if they should be reissued, voided, or submitted to the Treasurer of Iowa.

Response - We will comply.

Conclusion - Response accepted

- I-D-06 Supporting Documents for Payments with Credit Cards - The District has a policy in place for credit card usage that states the users of the credit cards need to provide detailed receipts for purchases made as well as the credit card receipt indicating the date, purpose, and nature of the expense for each claim item. Failure to do so makes the expense the responsibility of the employee that was responsible for the expense. Furthermore District policy states, in special circumstances the Superintendent or the Board can approve a claim without proper receipt but there needs to be written documentation explaining the circumstances.

We noted during our audit that reimbursements made for meals do not always have detailed supporting documentation. For meal expenses, the credit card receipt was submitted but there was no detail on the receipt to indicate whether the expense was solely for the employee of the District or the employee and his/her spouse.

Recommendation - The District should review this policy with employees using the District credit card and implement procedures to ensure that the policy is followed when submitting credit card receipts.

Response - The policy will be reviewed with employees and more detailed receipts will be requested in the future.

Conclusion - Response accepted.

SCHLESWIG COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, exceeded the amended certified budget amounts in the non-instructional programs functional area.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will continue to review our budget and amend the budget if necessary in the future.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Todd Schultz, Board Member Vice President of United Bank of Iowa	Bank Officer	-

Recommendation - The District should consult legal counsel to determine the disposition of these matters.

Response - We will continue to monitor business transactions and consult with the school attorney if issues arise in the future.

Conclusion - Response accepted.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always delivered or published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - Proper documentation will be kept in the future to show that minutes were sent to the paper within the two weeks.

Conclusion - Response accepted.

II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-06 Deficit Balances - Two individual accounts within the Student Activity Fund had large deficit balances at June 30, 2006.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances.

Response - Account balances will be reviewed on a regular basis to eliminate deficits in the Activity Fund.

Conclusion - Response accepted.